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4 **TESTIMONY OF JACQUELINE R. CHERRY**
5 **FOR**
6
7 **THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA**
8
9 **DOCKET NO. 2002-1-E**
10
11 **IN RE: CAROLINA POWER & LIGHT COMPANY**
12
13

14 **Q. PLEASE STATE FOR THE RECORD YOUR NAME, BUSINESS ADDRESS**
15 **AND POSITION WITH THE PUBLIC SERVICE COMMISSION OF SOUTH**
16 **CAROLINA.**

17 **A.** My name is Jacqueline R. Cherry. My business address is 101 Executive Center
18 Drive, Columbia, South Carolina. I am employed by the Public Service Commission
19 of South Carolina, Audit Department, as an auditor.

20 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND**
21 **EXPERIENCE.**

22 **A.** I received a B. S. Degree in Business Administration, with a major in Accounting
23 from Johnson C. Smith University in 1976. I was employed by this Commission in
24 February 1979, and have participated in cases involving gas, electric, telephone,
25 water and wastewater utilities.

26 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
27 **PROCEEDING?**

28 **A.** The purpose of my testimony is to set forth, in summary form, the Staff's findings,
29 and recommendations resulting from our review of the Company's fuel adjustment
30 clause operation for the period January 2001 through March 2002. These findings
31 and recommendations are set forth in detail in the Staff's report.

32 **Q. WHAT WAS THE SCOPE OF YOUR AUDIT?**

1 A. The Audit Department Staff traced the information as filed in the Company's
2 required monthly filings, to the Company's books and records. The audit covered
3 the period January 2001 through December 2001. The purpose of the audit was to
4 determine if Carolina Power & Light Company had computed and applied the
5 monthly Fuel Adjustment Clause in accordance with the approved clause. To
6 accomplish this purpose, Staff examined the components surrounding the operation
7 of the clause.

8 **Q. WHAT WERE THE STEPS THAT THE STAFF EMPLOYED WITHIN THE**
9 **SCOPE OF THE AUDIT?**

10 A. The examination consisted of the following:

- 11 1. Analysis of Account # 151 – Fuel Stock
- 12 2. Sample of Receipts to the Fuel Stock Account – Account # 151
- 13 3. Verification of Charges to Nuclear Fuel Expense, Account # 518
- 14 4. An Analysis of Purchased Power and Interchange (Net)
- 15 5. Verification of KWH Sales
- 16 6. A Comparison of Coal Costs
- 17 7. Recomputation of Fuel Costs Adjustment Factor and Verification of
- 18 Deferred Fuel Costs
- 19 8. Recomputation of True-up for the (Over) Under-Recovered Fuel Costs
- 20 9. Analysis of Spot Coal Purchasing Procedures

21 **Q. MRS. CHERRY, WOULD YOU ELABORATE ON THE SCOPE OF YOUR**
22 **EXAMINATION?**

23 A. Staff's analysis of the Fuel Stock Account consisted of tracing receipts and issues
24 from the Fuel Management System by month to the General Ledger. Staff's sample
25 of receipts to the Fuel Stock Account consisted of randomly selecting transactions,
26 tracing each of these transactions to a waybill and a purchase order for
27 documentation purposes, and recalculating the transactions to insure mathematical
28 correctness. Staff verified nuclear fuel expense amounts to the Company's General
29 Ledger. The expenses were also verified to the monthly fuel reports filed by the
30 Company with this Commission. Staff performed an examination of the Company's

1 purchased power and interchange amount used in the Fuel Adjustment Clause for the
2 period January 2001 through December 2001. Staff obtained the details of
3 purchases and sales made by Carolina Power & Light Company to and from other
4 electric utilities and verified the amounts that are being used in computing total fuel
5 cost for each month. Furthermore, PSC Order No. 90-961, Docket No. 90-4-E,
6 dated October 18, 1990, directed Staff to examine the Company's nonfirm, off-
7 system sales. Accordingly, Staff traced the sales and purchases transactions for
8 January 2001 through December 2001 to the Company's monthly sales and
9 purchases invoices. Staff recomputed all of the sales and purchases. Staff's review
10 of KWH sales included verification of total system sales as filed in the monthly
11 factor computation. Staff prepared exhibits from Carolina Power & Light
12 Company's books and records reflecting coal costs during the review period.
13 Specifically, these exhibits are as follows:

14 Exhibit A – Coal Cost Statistics (and Weighted Average of Coal Received)

15 Exhibit B – Received Coal – Cost Per Ton Per Plant

16 Exhibit C – Received Coal – Cost Per Ton Comparison

17 With reference to Exhibit A, Coal Cost Statistics, Staff has reflected a detailed
18 analysis of spot and contract coal for the twelve –month period January 2001
19 through December 2001. Exhibit A provides detail of tons received, cost per ton
20 received, total received cost, percentage of tons received and cost per MBTU. Also,
21 in Exhibit A, the Weighted Average of Coal Received is reflected for the twelve-
22 month period. In Exhibits B and C, Staff reflects a comparison of coal costs on a per
23 ton basis. Exhibit B is a comparison between Carolina Power & Light's plants, and
24 Exhibit C is a comparison between companies.

25 Staff analyzed the cumulative under-recovery of fuel costs that the Company had
26 incurred for the period January 2001 through December 2001, totaling \$9,906,921.
27 Staff added the projected over-recovery of \$1,130,546 for the month of January
28 2002, the projected over-recovery of \$1,189,539 for the month of February 2002,
29 and the projected over-recovery of \$878,834 for the month of March 2002 to arrive
30 at a cumulative under-recovery of \$6,708,002 as of March 2002. The Company's

1 cumulative under-recovery, per its testimony in Docket No. 2002-1-E, as of
2 December 2001 totals \$10,342,066 and as of March 2002 the cumulative under-
3 recovery totals \$7,143,146. The difference between the Company and the Staff's
4 cumulative under-recovery as of actual December 2001 is \$435,145 and the
5 difference as of estimated March 2002 is \$435,144 (the difference between the
6 respective cumulative differences is based on rounding). The cumulative difference
7 as of December 2001 of \$435,145 is based on Staff's calculation adjustments to the
8 Company's Purchased Power Costs for January 2001 through December 2001 (per
9 Staff's report), after Staff reviewed the Company's Purchased Power invoices and
10 reports.

11 As stated in Carolina Power & Light's S.C. Retail Adjustment for Fuel Costs Rider,
12 fuel costs will be included in base rates to the extent determined reasonable and
13 proper by the Commission. Accordingly, the Commission should consider the
14 under-recovery of \$6,708,002 along with the anticipated fuel costs for the period
15 April 1, 2002 through March 31, 2003, for the purpose of determining the base costs
16 of fuel in base rates effective April 1, 2002. The \$6,708,002 under-recovery figure
17 was provided to the Commission's Utilities Department. Refer to Exhibit G, South
18 Carolina Fuel Costs Computation, for details of the under-recovery computation.

19 **Q. MRS. CHERRY, WHAT WERE THE RESULTS OF THE AUDIT**
20 **DEPARTMENT'S AUDIT?**

21 **A.** Based on the Staff's examination of Carolina Power & Light Company's books and
22 records, a comparison of fuel costs among utilities, and the utilization of the fuel
23 costs recovery mechanisms as directed by this Commission, the Audit Department is
24 of the opinion that the Company has complied with the directives of the
25 Commission.

26 **Q. MRS. CHERRY, WOULD YOU IDENTIFY THE REMAINING EXHIBITS**
27 **CONTAINED IN YOUR REPORT THAT HAVE NOT BEEN IDENTIFIED?**

28 **A.** The exhibits are as follows:

29 Exhibit D – Coal Fuel Stocks – Number of Days of Supply (All Plants)

30 Exhibit E – Total Burned Costs (Fossil and Nuclear)

1 Exhibit F – Cost of Fuel

2 Exhibit G – S.C. Fuel Costs Computation

3 **Q. MRS. CHERRY, DOES THIS CONCLUDE YOUR TESTIMONY?**

4 **A.** Yes, it does.

1 Q [Ms. Belser] Ms. Cherry, do you have a summary of your
2 testimony today?

3 A Yes, I do.

4 Q Would you give it at this time, please?

5 A Yes. The Audit Department Staff traced the fuel
6 information, as filed in the Company's required monthly
7 filings, to the Company's books and records. The audit
8 covered the period January 2001 through December 2001.
9 The purpose of the audit was to determine if Carolina
10 Power & Light Company had computed and applied the
11 monthly Fuel Adjustment Clause in accordance with the
12 approved clause. To accomplish this, Staff examined the
13 components surrounding the operation of the clause.

14 The examination consisted of an analysis of account
15 #151-Fuel Stock, sample of receipts to the Fuel Stock
16 Account-Account #151. Verification of charges to Nuclear
17 Fuel Expense-Account #518, an analysis of Purchased Power
18 and Interchange (Net), verification of KWH Sales, an
19 analysis of Spot Coal purchasing procedures, a comparison
20 of coal costs, the recomputation of the Fuel Costs
21 Adjustment Factor, verification of Deferred Fuel Costs,
22 and the recomputation of the True-up for (over)/Under-
23 Recovered Fuel Costs.

24 Staff analyzed the cumulative under-recovery of fuel

1 costs that the Company had incurred for the period
2 January 2001 through December 2001, totaling \$9,906,921.
3 Staff added the projected over-recovery of \$1,130,546 for
4 the month of January 2002, the projected over-recovery of
5 \$1,189,539 for the month of February 2002, and the
6 projected over-recovery of \$878,834 for the month of
7 March 2002 to arrive at a cumulative under-recovery of
8 \$6,708,002 as of March 2002.

9 On a South Carolina jurisdictional basis, the
10 difference between the Company's and the Staff's
11 cumulative under-recovery balance as of actual December
12 2001 is \$435,145 and the difference as of estimated March
13 2002 is \$435,144 (the difference between the respective
14 cumulative differences is based on rounding).

15 Staff's Exhibit G, South Carolina Fuel Costs
16 Computation, provides details of Staff's cumulative
17 under-recovery balance. As stated in Carolina Power &
18 Light's South Carolina Retail Adjustment for Fuel Costs
19 Rider, fuel costs will be included in base rates to the
20 extent determined reasonable and proper by the
21 Commission.

22 Accordingly, the Commission should consider the
23 under-recovery of \$6,708,002, along with the anticipated
24 fuel costs for the period of April 1, 2002 through March

1 31, 2003, for the purpose of determining the base cost of
2 fuel in base rates effective April 1, 2002. The
3 \$6,708,002 under-recovery figures was provided to the
4 Commission's Utilities Department.

5 Q Does that conclude your summary?

6 A Yes, it does.

7 MS. BELSER: Mr. Chairman, Ms. Cherry
8 is available for questions.

9 CHAIRMAN SAUNDERS: Mr. Elam?

10 MR. ELAM: Just one, Mr. Chairman.

11 **CROSS-EXAMINATION BY MR. ELAM:**

12 Q Ms. Cherry, the invoices that I was speaking with Mr.
13 Penny about, the marketer or purchased power invoices, is
14 that something the Staff reviews as part of its audit?

15 A Yes.

16 Q Okay. Thank you.

17 CHAIRMAN SAUNDERS: Mr. Austin?

18 MR. AUSTIN: We have no questions,
19 Mr. Chairman.

20 CHAIRMAN SAUNDERS: Commissioners?
21 Commissioner Atkins?

22 **EXAMINATION BY COMMISSIONER ATKINS:**

23 Q Ms. Cherry, how are you?

24 A Okay.

- 1 Q I want to follow up on a question that Mr. Elam just
2 asked, which is on page three of your, not your prefiled
3 testimony, but the Commission Staff Report, the Audit
4 Report; and again, it says, *'Staff obtained the detail of*
5 *the purchases and sales made by Carolina Power & Light to*
6 *and from other electric utilities'* Is it possible
7 to go back through those and determine where that power
8 came from, like if it was purchased from Duke or a
9 marketer or from Kalamazoo Electric & Gas, somewhere in
10 Wyoming somewhere?
- 11 A Yes, what we get from the Company are their invoices from
12 their power marketers or from their regular - such as
13 VACAR utilities that they were talking about such as
14 Duke, you know, Duke Power and MEPCO, SCE&G. So yes, we
15 get the invoices for all the different ones.
- 16 Q I know you live and breath this stuff and have it on your
17 brain and probably dream about it at night, but just kind
18 of off the cuff, just very informally here, would you say
19 —what percentage would you say of this last year was
20 from VACAR purchases as opposed to out somewhere in the
21 — and if you don't feel comfortable doing it that's
22 fine.
- 23 A Yes, well I'm not sure I can give you a good percentage.
24 I know that basically when I look at the information the

1 records are set up basically first with the Duke, SCE&G
2 and their VACAR type utilities first; and then we have a
3 long, long list of power marketers that they possibly buy
4 from. But —

5 Q Then again the marketers, we might know where that
6 necessarily came from. It was just marketed through
7 them.

8 A Yes, well they have their — on an invoice you'll have
9 the name of the power marketer and you'll have where
10 they're located, you know, where their office is and
11 where they're, you know, what percentage that you're
12 getting from them. They don't give as much detailed
13 information as you sometimes like because they try to
14 kind of, I think the competition of it all, they didn't
15 want to put as much on the invoice, but they do break it
16 down enough where we usually can tell, you know, we can
17 take off what they purchased from — what CP&L has
18 purchased from them.

19 Q But if I'm a marketer, let's say —

20 A And the megawatt-hours on there too.

21 Q Okay. If I'm a marketer in Washington and I may have
22 bought the power from somebody in Tennessee or Virginia
23 or whatever and marketed it too, so that wouldn't
24 necessarily — that may or may not be on there, I guess

1 is what I'm asking.

2 A Yes. A lot of times they'll say, well, it'll show —
3 they could just come through possibly TVAV or CP&L or via
4 some other company, but it does break it down to some
5 extent.

6 Q Okay. Thank you. I appreciate it.

7 A You're welcome.

8 CHAIRMAN SAUNDERS: Ms. Belser?

9 MS. BELSER: No redirect, Mr.

10 Chairman.

11 CHAIRMAN SAUNDERS: Ms. Cherry, you
12 may step down.

13 MS. BELSER: The Commission Staff
14 would call A. R. Watts.

15 WHEREUPON: A. R. WATTS, FIRST BEING
16 DULY SWORN, ASSUMES THE STAND AND
17 TESTIFIES AS FOLLOWS:

18 DIRECT EXAMINATION BY MS. BELSER:

19 Q Would you please state your name and business address for
20 the record?

21 A Yes. A. R. Watts. 101 Executive Center Drive, in
22 Columbia.

23 Q Mr. Watts, where are you employed and in what capacity?

24 A I'm employed by the Public Service Commission of South

1 Carolina in the Utilities Department as Chief of
2 Electric.

3 Q Mr. Watts, what's the purpose of your testimony in
4 today's proceeding?

5 A The purpose of my testimony is to summarize Staff's
6 findings as set forth in the Utilities Department portion
7 of the Staff Report.

8 Q In connection with today's proceeding, did you prepare
9 and file with the Commission, as well as with the other
10 parties, three pages of prefiled testimony?

11 A Yes, I did.

12 Q Do you have any changes or additions or corrections to
13 make to that testimony today?

14 A No, I do not.

15 MS. BELSER: Mr. Chairman, I would
16 ask that Mr. Watts' prefiled testimony be
17 entered into the record as if given orally
18 from the stand.

19 CHAIRMAN SAUNDERS: It will be
20 admitted as if read.

21 Q [Ms. Belser] Mr. Watts, you already mentioned the Staff
22 Report. Did you prepare or have prepared under your
23 direct supervision Exhibits 1 through 10 as contained
24 under the Utilities Department tab of the Staff Report?

1 A Yes.

2 Q Do you have any additions, changes or corrections to make
3 to any of those exhibits today?

4 A Yes. There's one correction on Exhibit #1, which is page
5 four of the Report. Under the Capacity Factor Chart for
6 the nuclear units.

7 Q That's the chart at the top of the page?

8 A The chart at the top, yes, ma'am.

9 Q Thank you.

10 A Under the third column from the left entitled 'Lifetime',
11 the last two in that, the Harris I and Robinson Unit II
12 were transposed, so they should read Harris Unit I should
13 be 82.0 and the Robinson Unit II should reflect 71.8.

14 Q Okay.

15 A The total is correct.

16 Q Okay. It's just that the numbers on those two lines were
17 flipped.

18 A Yeah, they were transposed, yes, ma'am.

19 Q With that one correction, would your exhibits be correct?

20 A Yes.

21 Q Okay.

22 MS. BELSER: Mr. Chairman, I would
23 ask that Mr. Watts' exhibits as contained
24 under the Utilities Department tab of the

1 Staff Report be admitted into the record
2 and marked for identification and - as
3 well as admitted into evidence.

4 CHAIRMAN SAUNDERS: It will be
5 Hearing Exhibit #5 and admitted into the
6 evidence of this of this hearing as
7 amended.

8 MS. BELSER: Thank you.

9 [HEARING EXHIBIT #5 MARKED FOR
10 IDENTIFICATION AND ACCEPTED INTO EVIDENCE]
11 [PREFILED TESTIMONY OF
12 A. R. WATTS FOLLOWS]: